

**DOUGLAS COUNTY RURAL
WATER DISTRICT NO. 1**
Lawrence, Kansas

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2015

And

INDEPENDENT AUDITORS' REPORT

...***KL***...

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Certified Public Accountants

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DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Lawrence, Kansas

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Douglas County Rural Water District No. 1
Lawrence, Kansas 66049

We have audited the accompanying fund Summary of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash of the Douglas County Rural Water District No. 1, Lawrence Kansas ("District") as of and for the year ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2015, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2015, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the fund Summary Statement of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash (basic financial statement) as a whole. Schedules 1 through 9 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or

to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Karlin & Long, LLC

Karlin & Long, LLC
Certified Public Accountants
Lawrence, KS

February 23, 2016

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2015

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add	
						Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Proprietary Type Funds							
Water Utility	\$ 981,422	\$	\$ 353,502	\$ 258,448	\$ 1,076,476	\$ -	\$ 1,076,476
Total Reporting Entity	\$ 981,422	\$ 0	\$ 353,502	\$ 258,448	\$ 1,076,476	\$ 0	\$ 1,076,476
Composition of Cash							
			Checking Accounts		\$	58,262	
			Petty Cash			100	
			Certificates of Deposit			1,018,114	
			Total Reporting Entity		\$	1,076,476	

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Douglas County Rural Water District No. 1 (the District) is a water utility that provides service to 392 customers as of December 31, 2015. The District was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

The following types of funds comprise the financial activities of the District for the year of 2015:

Regulatory Basis Fund Types

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, sewer fund, etc.).

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows regulatory receipts, expenditures, cash and unencumbered cash balances. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenues and principal and interest payable, and reservations of fund balance are not presented.

Under the regulatory basis of accounting, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

Use of Estimates

The preparation of modified cash basis financial statements (see the supplemental information on schedules 1 through 6) requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows and summary of cash balances, (see the supplemental information on schedules 1 through 6) cash and cash equivalents are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Memberships

The District adds the cost of purchasing a benefit unit directly to district equity rather than recognizing those sums as revenues.

Property and Equipment

Property and equipment are recorded at cost (see the supplemental information on schedules 1 through 6). Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using straight line and declining balance methods over the estimated useful life of the asset. Depreciation expense totaled \$10,537 and \$16,394 for the years ended December 31, 2015 and 2014, respectively.

Income Taxes

In prior years, it has been held that the District is exempt from income taxes under Section 115 of the Internal Revenue Code both because it is a public utility under Section 247 and because it is a political subdivision of the State of Kansas (K.S.A. 82a-601,et.seq.).

The District's payroll tax returns for the years ending 2015, 2014, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

In a 1992 published Internal Revenue Service opinion, it was determined that Kansas rural water districts do not qualify as political subdivisions for the purposes of the exemption from payment of FUTA. No claim has been asserted against the District for this tax, nor is the amount of any such claim determinable at this time. Kansas law has been changed, effective March 20, 1992, the result of which causes rural water districts to again qualify as a political subdivision for the purpose of the exemption for payment of FUTA. We are unable to determine at this time whether or not a claim will ultimately be asserted against the District, the likelihood that it would ultimately be held liable for that claim, or the ultimate amount of that claim, if assessed. Consequently, no additional liabilities relating to a possible claim have been recognized.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

At December 31, 2015, the District's carrying amount of deposits, including certificates of deposit, was \$ 1,076,476 and the bank balance was \$ 1,080,397 of which \$ 62,283 was covered by FDIC insurance. The balance of \$ 1,018,114 is held in an investment account of a commercial institution is not secured by FDIC insurance.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 4 – Compliance with Kansas Statutes

We noted no violations of Kansas statutes during the period under examination other than the custodial credit risk noted above.

NOTE 5 – Water Contract

In 1977, the District entered into a 40-year contract for treatment of water from the City of Lawrence, Kansas. The District purchases water from the City of Lawrence at the rate of \$ 3.83 per thousand gallons.

NOTE 6 – Compensated Absences

The District pays vacation time of up to 12 days a year for employees who have worked less than 5 years. For employees who have worked more than 5 years but less than 10 years, the District will pay for 15 days of vacation. For employees who have worked more than 10 years, the District will pay for 18 days of vacation. There is no accumulation of vacation days from one year to the next. Those days not taken by the end of the year are paid prior to January 1 of the following year. The Board of Directors may, at its discretion, allow an employee to carry up to 5 days of vacation over to the next calendar year. The district allows employees sick leave at the rate of one day per month following the commencement of their employment. Sick leave may be accumulated to a maximum of 90 days. Upon separation from the District the employee is not paid for unused accumulated sick leave.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Concentration of Suppliers

The District acquires 100% of its water supply from the City of Lawrence. There are no other suppliers of water available for the District.

NOTE 8 – Concentration of Credit Risk

The District currently has all of its certificates of deposit and demand deposits with two financial institutions in Lawrence, Kansas banks. This is a concentration of credit risk related to deposits.

NOTE 9 – Employment Benefits

The District provides medical insurance if the employee so desires. Health insurance for dependents is not paid by the District.

The District contributes to a retirement account established for each employee. The amount contributed and the basis on which contributions are made are determined annually by the Board and shall be in compliance with all federal and state laws.

NOTE 10 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 11 – Subsequent Events

Subsequent events for management's review have been evaluated through February 23, 2016. The date in the prior sentence is the date the financial statements were available to be issued.

Douglas Rural Water District No. 1

Regulatory-Required

Supplementary Information

For the year ended December 31, 2015

RURAL WATER DISTRICT NO.5, DOUGLAS COUNTY

Summary of Expenditures - Actual and Budget

For the year ended December 31, 2015

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
Proprietary					
Water Utility	\$ 341,400	\$ 0	341,400	\$ 258,867	\$ (82,533)

RURAL WATER DISTRICT NO. 1, DOUGLAS COUNTY
REGULATORY BASIS
WATER UTILITY FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the year ended December 31, 2015

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Water sales	\$ 335,261	\$ 350,000	\$ (14,739)
Extension line reimbursements	0		0
Memberships	10,000	10,000	0
Miscellaneous income	298	3,125	(2,827)
Interest income	7,942	1,200	6,742
	<u>353,501</u>	<u>364,325</u>	<u>(10,824)</u>
EXPENDITURES			
Water purchased	116,524	193,400	(76,876)
Salaries and wages	39,232	35,900	3,332
Subcontractors and fees	39,511	56,000	(16,489)
Repairs and maintenance	13,086	9,000	4,086
Utilities and telephone	9,099	12,250	(3,151)
Insurance and bonds	4,354	6,500	(2,146)
Office expenses	8,133	10,500	(2,367)
Professional and other services	3,175	3,700	(525)
Payroll taxes	3,001	2,700	301
Dues and fees	450	550	(100)
Mileage and auto expense	248	400	(152)
Board expenses	878	700	178
Retirement contribution	8,100	7,800	300
Outside services	0		0
Bank fees	2,683	1,500	1,183
Mapping expense	0	500	(500)
Plant and equipment purchases	0		0
Inventory purchases	10,393		10,393
Adjustment for qualifying budget credits	0		0
	<u>258,867</u>	<u>\$ 341,400</u>	<u>\$ (82,533)</u>
Total Expenditures			
	<u>258,867</u>	<u>\$ 341,400</u>	<u>\$ (82,533)</u>
 Receipts Over (Under) Expenditures	 94,634		
Unencumbered Cash, Beginning	981,422		
Prior Year Cancelled Encumbrances	0		
	<u>0</u>		
 Unencumbered Cash, Ending	 \$ <u>1,076,056</u>		

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
 Water Utility Fund
 Schedule of Receipts and Expenditures
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 For the year ended December 31, 2015
 (With Comparative Totals for the Prior Year Ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
CASH RECEIPTS		
Charges for services	\$ 335,261	\$ 353,263
Cash on sale of assets		-
Interest income	7,942	6,727
Miscellaneous income	<u>10,299</u>	<u>21,094</u>
Total Cash Receipts	<u>353,502</u>	<u>381,084</u>
EXPENDITURES		
Production	258,448	284,530
Capital outlay		<u>9,023</u>
Total Cash Expenditures	<u>258,448</u>	<u>293,553</u>
Receipts Over (Under) Expenditures	95,054	87,531
Unencumbered Cash, Beginning	<u>981,422</u>	<u>893,891</u>
Unencumbered Cash, Ending	<u>\$ 1,076,476</u>	<u>\$ 981,422</u>

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Balance Sheets
As of December 31, 2015 and 2014

	ASSETS	
	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 58,362	\$ 121,214
Certificates of deposit	1,018,114	860,209
Inventory	40,629	30,234
Water rights	698	698
Total current assets	1,117,803	1,012,355
Property, plant, and equipment, net	87,992	98,529
Total Assets	<u>\$ 1,205,795</u>	<u>\$ 1,110,884</u>

	LIABILITIES AND DISTRICT EQUITY	
Current Liabilities		
Due to Patrons	\$ 762	\$ 532
Payroll and sales taxes payable	1,627	1,436
Total current liabilities	2,389	1,968
District Equity	1,203,406	1,108,916
Total liabilities and member's equity	<u>\$ 1,205,795</u>	<u>\$ 1,110,884</u>

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Operations
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Water sales	\$ 335,261	\$ 353,263
Extension line reimbursements		6,000
	<u>335,261</u>	<u>359,263</u>
Expenses		
Water purchased	116,524	136,056
Salaries and wages	39,232	33,874
Subcontractors and fees	39,511	50,535
Repairs and maintenance	13,086	8,519
Utilities and telephone	9,099	9,572
Insurance and bonds	4,354	9,731
Office expenses	8,133	8,631
Professional and other services	3,175	3,830
Payroll taxes	3,001	2,591
Dues and fees	450	525
Depreciation	10,537	16,394
Mileage and auto expense	248	377
Board expenses	878	549
Retirement contribution	8,100	7,800
Outside services	-	75
Bank fees	2,683	2,018
Mapping expense	-	510
	<u>259,011</u>	<u>291,587</u>
Net income from operations	<u>76,250</u>	<u>67,676</u>
Other Income (Expense)		
Miscellaneous income	298	3,344
Interest income	7,942	6,727
Gain on the sale of assets	-	-
Other Income/Expense, Net	<u>8,240</u>	<u>10,071</u>
Net Income	<u>\$ 84,490</u>	<u>\$ 77,747</u>

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Changes in District Equity
 For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
District Equity - Beginning of year	\$ 1,108,916	\$ 1,019,419
Memberships	10,000	11,750
Net Income	<u>84,490</u>	<u>77,747</u>
District Equity - End of year	\$ <u><u>1,203,406</u></u>	\$ <u><u>1,108,916</u></u>

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Net Income	\$ 84,490	\$ 77,747
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities		
Depreciation and amortization	10,537	16,394
(Increase) decrease in Inventory	(10,396)	(9,587)
Increase (decrease) in Due to Patrons	230	13
Increase (decrease) in taxes payable	191	237
Net Cash Provided By Operating Activities	<u>85,052</u>	<u>84,804</u>
Cash Flows from Investing Activities		
Proceeds from sale of benefit units	10,000	11,750
Proceeds from certificates of deposit	(157,905)	(106,673)
Purchase of assets	<u>-</u>	<u>(9,023)</u>
Net Cash Provided By Investing Activities	<u>(147,905)</u>	<u>(103,946)</u>
Net Increase (Decrease) In Cash	(62,853)	(19,142)
Cash - Beginning of Period	<u>121,214</u>	<u>140,355</u>
Cash - End of Period	<u>\$ 58,362</u>	<u>\$ 121,214</u>

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Summary of Insurance Coverage
 Schedule of Cash Receipts and Expenditures - Actual and Budget

Property Covered	Coverage	Expires
Commercial property:	90% Coinsurance	12/7/2016
Building	111,458	
Property in the open	400,000	
Underground pumps	200,000	
Personal property in office	50,000	
Commercial General Liability:		12/7/2016
Aggregate Limit -		
products/completed operations	1,000,000	
Personal and advertising injury	500,000	
Damage to premises rented	100,000	
Medical expense (per person)	5,000	
Inland marine		12/7/2016
Miscellaneous inventory	93,615	
Commercial Auto:		12/7/2016
Liability insurance (per loss)	500,000	
Workmen's compensation:		12/7/2016
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		12/7/2016
Per loss	100,000	
Directors' and Officers' Liability:	1,000,000	12/7/2016

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Board Members and Officers
As of December 31, 2015

Chairman:	Tom Sloan 772 Highway 40 Lawrence, KS 66049
Vice-Chairman:	Jerry Younger 1469 E 660 Road Lawrence, KS 66049
Secretary/Treasurer:	John Bialek 692 N 1483 Road Lawrence, KS 66049
Board Member:	Bob Riley 695 N 1610 Road Lawrence, KS 66049
Board Member:	Jason Anderson 884 N 1663 Road Lawrence, KS 66049
Board Member:	Curtis Morgan 754 N 1750 Road Lawrence, KS 66049